LINKING ENERGY AND RURAL DEVELOPMENT

Poverty and Production

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ENERGY SERVICES FOR THE RURAL POOR

- As of 1998, 816 million people in the Asia-Pacific region (68% of the world's bottom poor) lived on less than US$ 1 day; two-thirds of them in the rural areas
- Since the Asian economic crisis of 1997, their numbers have increased, closer to 1 billion today
- Among them are the 'hardcore poor' — who are landless, wealthless and incomeless, and who are plagued by the curse of poverty across generations
- Meeting the basic needs of the poor is the primary goal of rural development; so, therefore, providing them basic energy services should be the primary thrust of rural energy development

…OR SO THE ARGUMENT GOES

THE GROUND REALITIES

- Poverty alleviation policies focus primarily on the basic needs of the poor, usually through grants and subsidies
- They fight a losing battle — while proportions of the poor have declined, their absolute numbers have increased
- Energy initiatives for the poor follow the pattern by concentrating on basic energy services to meet basic household needs
- Their failure is even worse — they have neither met the poor's basic needs, nor addressed their need for economic activities
- Electricity from the grid or solar PV modules is used in rural households mainly for lighting and recreation, which reflect only 10-15% of rural energy consumption
- Cooking fuels, which form over 75% of rural energy consumed, are addressed neither by the utilities, nor by the private sector
- Crucially, energy initiatives for the rural poor are not embedded in mainstream rural development or poverty alleviation

…SO WHAT IS WRONG?

THE HEART OF THE ISSUE

- Poverty defies conventional wisdom — whether rooted in welfare theory or market economics
- Welfare approaches fail to resolve poverty as they perpetuate a regime of hand-outs which is wasteful, inefficient and prone to abuse — they might ‘alleviate’ poverty but they cannot ‘eradicate’ it
- More important, a hand-outs regime robs the poor of human dignity and ignores their quest for self-reliance
- Market approaches chase purchasing power rather than create it — their eventual outreach to the poor is so far removed in time as to be a distant illusion for most
- Worst among them are the ‘pseudo market approaches’ that ride parasitically on welfare programmes
- A ‘Basic Needs+” approach is required — one that extends beyond subsistence to the central issue of livelihood

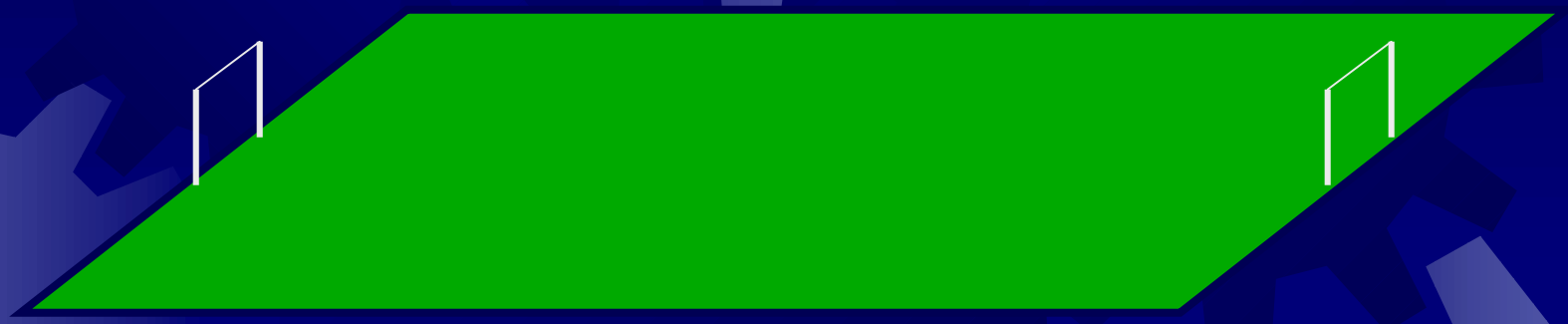
THE CREATION OF WEALTH, AT THE LEVEL THE POOR, IS THE ONLY ENDURING SOLUTION TO POVERTY

— This should be the driving force of energy initiatives for the poor

‘BASIC NEEDS+’ APPROACH TO ENERGY SERVICES FOR THE POOR

- Energy needs for *living* must be combined with energy needs for *livelihood* to generate a minimum level of income
- Income-generation should be the primary goal of energy projects for the poor as this *will* enhance living standards, whereas the reverse is uncertain
- Decentralised energy technologies may offer the best prospects for the rural poor — but their advocates must switch from *‘technology fix’* to *‘technology fit’*
- Decentralised energy services must be consciously converged over time with centralised services to cater for scaling up of economic activities
- Energy services must pay far greater attention to process heat and motive power, which are the primary requirements for productive activities

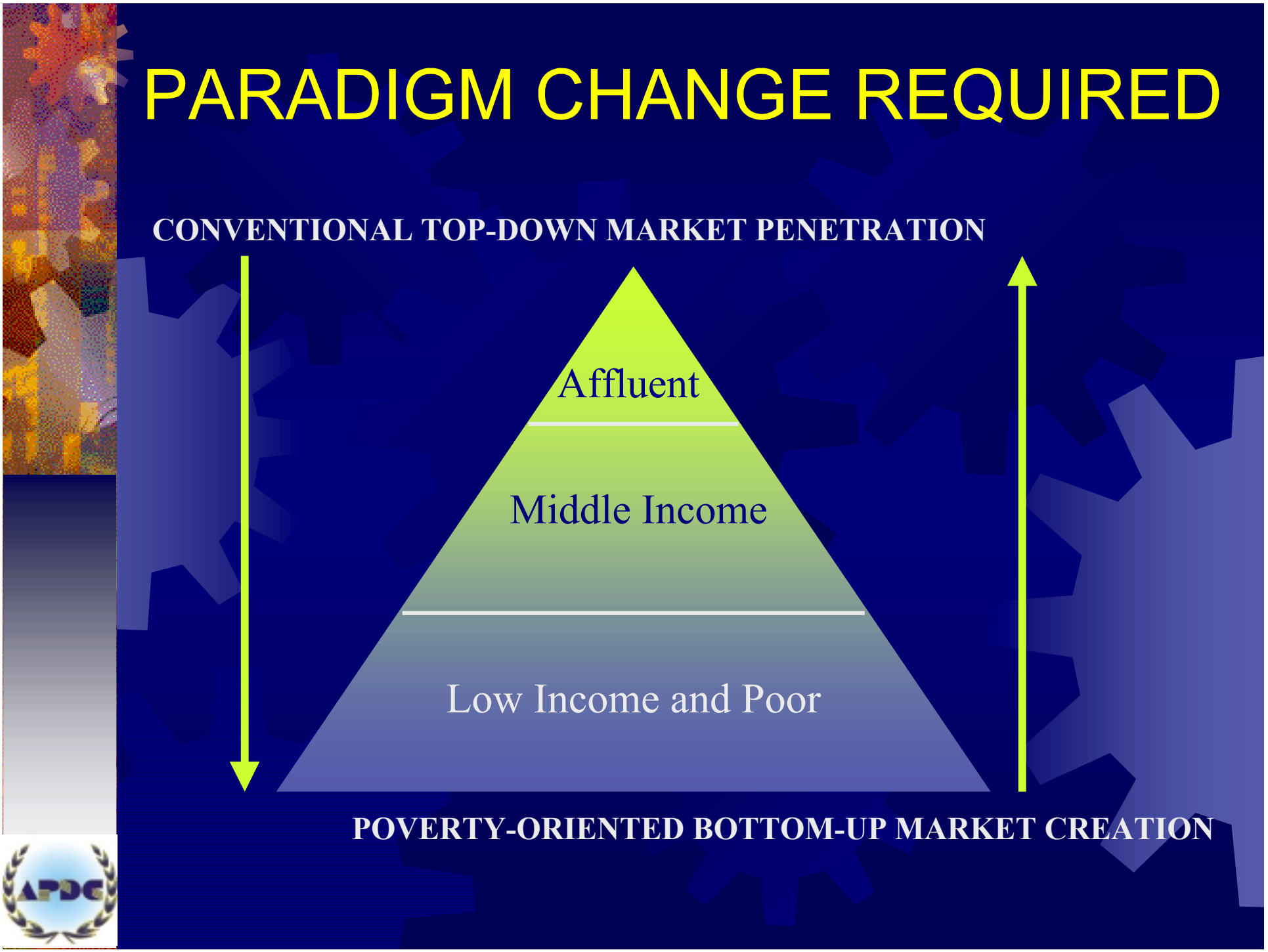
THE LEVEL PLAYING FIELD…



…WHERE ARE THE PLAYERS?

Under the Basic Needs+ approach, rational pricing policies must be pursued together with rational income policies

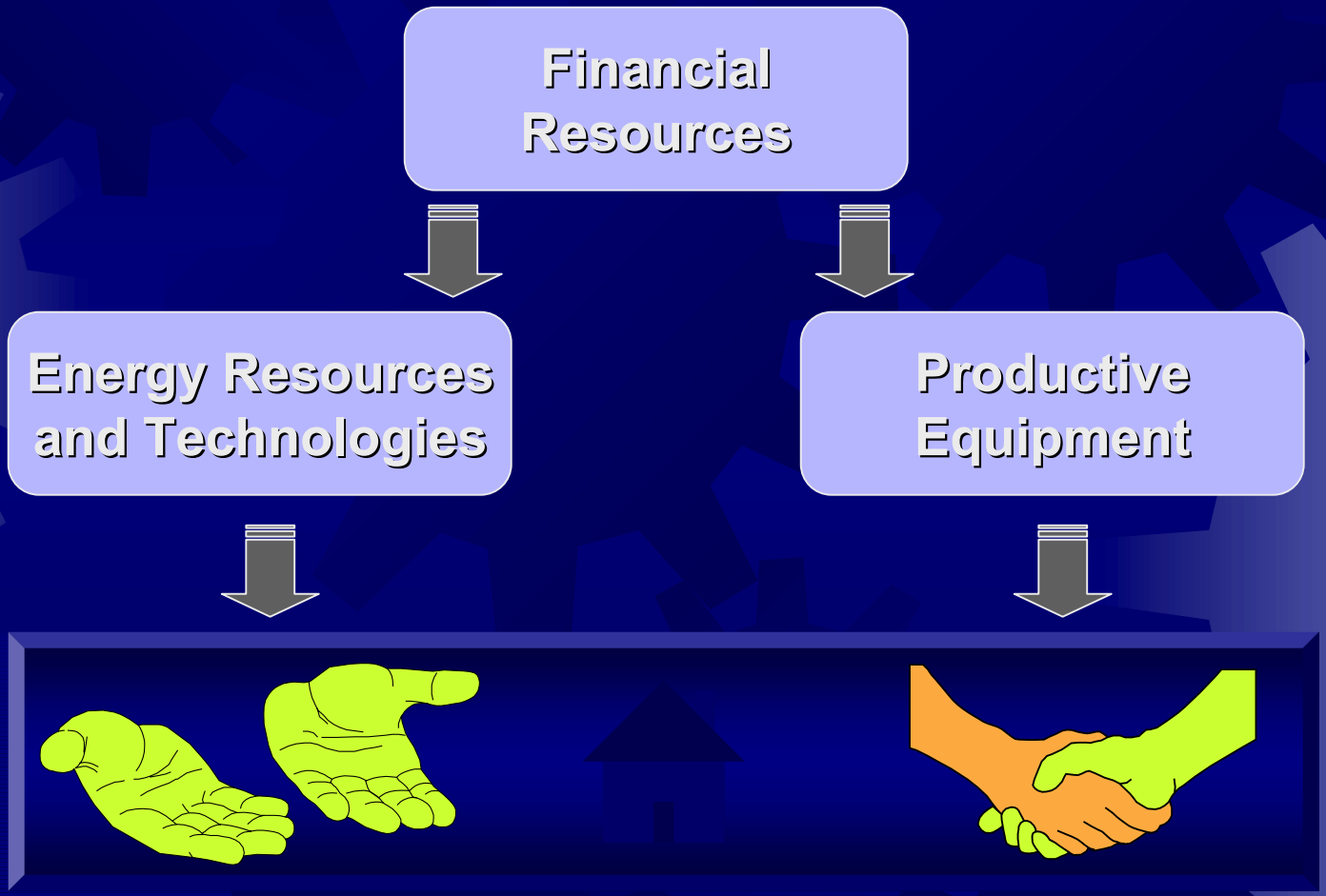
PARADIGM CHANGE REQUIRED



FINANCING ENERGY SERVICES AND INCOME-GENERATING OPPORTUNITIES FOR THE POOR: PROJECT ENSIGN

- Access to modern energy services is crucial for breakthroughs in the economic status of the poor
- All modern energy services carry a cash price which is usually outside the poor's reach
- Conventional financing channels are unable or unwilling to lend essential capital to the poor
- Innovative financing mechanisms with a grassroots outreach and tailored to the poor's repayment capacity are required
- The poor's economic capacity to afford modern energy services can be enhanced only when associated income-generating activities are promoted
- Financing energy-intensive microenterprises for the poor through microcredit mechanisms can address the issue centrally

PROJECT MISSION



KEY ELEMENTS OF THE PROJECT

Decentralised energy supplies

Centralised energy supplies

Efficient appliances

Upstream financing sources

Micro-financing institutions

Poor borrowers

Income from house-hold enterprises

Income from community enterprises

Savings in expenditure

KEY ACTORS IN THE PROCESS

ENSIGN PILOT PROJECTS: LOAN STRUCTURE

- ENSIGN Revolving Fund: 36%; National Financing Institutions: 50%; Borrowers' Equity: 14% of total loan funds
- Interest rate to borrowers somewhat below market rates — varying between 15% in Indonesia to 20.5% in Myanmar
- Repayment periods of 2 to 6 years, with longer repayment schedules and grace periods associated with projects involving renewable energy

34 pilot projects, covering 1,400 beneficiaries in 275 households, financed by ENSIGN loans

ECONOMIC IMPACTS

	No. of Households	No. of Beneficiaries	% Increase in Income
India	28	139	55.5
Indonesia	33	132	89.0
Mongolia	32	120	137.5
Myanmar	25	25	61.0
Nepal	5	150	9.0
Philippines	30	210	233.0
Sri Lanka	66	330	306.0
Total/Average	219	1,106	123.0

Community projects generated significantly higher income growth than household projects